

## WORLD FOOD SITUATION AND U. S. AGRICULTURE

Crops worldwide were relatively good in 1976. There were poor spots. Much of Europe had drouth. So, for that matter, did the western U. S. Corn Belt. But Russia had a record-large wheat harvest and grain yields were good in South Asia for the second year in a row. World wheat production was up 15%.

Coming after several bad years when the whole planet, even the well-fed U. S. worried about having enough food, last year's outcome was reassuring. There is less sense of crisis now. Even stocks of grain have been rebuilt part way.

In economics, good fortune for one may be bad fortune for another. U. S. producers of wheat and rice are already feeling a pinch of lower prices that are explained largely by the improved world harvests.

For other reasons, the present situation ought not be overestimated for its meaning, now or for the future. We should be cautious in interpretation because:

1. One year of good crops does not establish a new trend.
2. Larger harvests mean little to the world's poorest people.
3. If harvests stay large, the export market for U. S. farm products may shrink.
4. The world financial imbalance grows more ominous.

## NO NEW TRENDS

With a few exceptions such as Western Europe and Australia the improvement in food crops has been general. Studies show food production rose about equally in the developing and developed parts of the world.

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Barr, Wallace, Agricultural Economist, Ohio State University. Presented at Ohio School Food Service Association Annual Conference, Columbus, Ohio. April 23, 1977. Heavily used as a reference was an article by Harold Breimyer entitled World Food and U.S. Agriculture Updated Once More, University of Missouri-Columbia.

Also, there was some gain in food production relative to population. The increase per capita was small, though, in developing countries where population growth stays high.

But "one swallow does not make a meal" and a single year's good harvest does not set a new food supply level. It might be attractive to believe that the world's food troubles are over -- that the remaining years of the 1970's will be free of serious shortages. Attractive, but probably wrong.

Russia and South Asia will not have bumper crops every year. Grain yields in the Soviet Union are notoriously erratic. India is certain to have a monsoon failure periodically. There is evidence that world weather conditions are worsening, at least compared with the very favorable 1960's.

Beyond question the higher price of petroleum is holding back farm production in some developing countries.

#### LITTLE HELP FOR THE POOR

The world food problem is only partly a food production problem. It is equally a world poverty problem. Granted, more abundant and cheaper food makes it easier for the working poor everywhere to buy food. But impoverished people can remain badly nourished or actually hungry, even when bins are overflowing.

Perhaps it is wrong even to speak of a world food problem. It may be a misnomer. A more accurate term might be, world economic problem. In an ultimate sense it is a world political-economic-moral problem.

Such words have been echoed before. "In a world interlocked by fast and cheap transport, the location of production need not hold a tight grip over the location of consumption. By trade . . . available food can, in principle, be distributed widely."

This simple axiom leads to the obvious but powerful conclusion that ability to buy goes far to control food consumption. Differences in income

and wealth, among nations and among classes and persons within each nation, has much to do with food consumption. Put more simply, people are hungry because they are poor.

The convincing evidence is that the world's food production is adequate for all its present population. Part of the world's people consume food luxuriously -- luxuriously in terms of resources used to produce it -- and another part barely subsist or even starve.

#### MEANING TO U. S. EXPORT MARKETS

Any food situation has opposite meanings to those who buy and those who sell. On the whole, better crops abroad tend to reduce export demand for the products of U. S. agriculture. This is definitely true in the short run. There is some question about whether it is true in the long run. This is because a productive agriculture aids economic growth which, in turn, strengthens demand for food.

The price effect of larger harvests is being felt today primarily in the food grains of wheat and rice. The Soviet Union is living up to its promise to buy a minimum of 6 million metric tons of grain every year, even in good crop years. So far the Soviets have bought 8.4 million metric tons including 3 million of wheat. But total U. S. wheat sales are down.

It is worth noting that although the world's prosperous countries are our best markets, the poorer nations are not negligible buyers. About half our wheat and rice go to the poorer nations. In 1974-75 India was our number one buyer of wheat. In 1975, one-third of our total farm exports went to the poorer countries. But those countries are so hard pressed financially that when they can avoid buying grain, they do so. They are the countries whose need most exceeds ability to pay.

In spite of some weakness in the demand for food grains, total U.S. farm exports may hold at around \$23 billion this year. The tonnage will

be down but higher prices for soybeans, oilseed products and cotton will hold the value up.

#### FOREIGN EXCHANGE IMBALANCES

Financing is a major factor affecting international food trade today. A lagging economic recovery in many industrial nations, and the effect of higher petroleum costs on most nations other than petroleum producers, combine to cast doubt about the financial strength of U. S. food buyers.

One official put it in terms of developments since OPEC first boosted oil prices: "Since that oil price increase, a number of foreign markets for U. S. farm exports have incurred large foreign debts. By and large, this is true of all the non-petroleum developing countries and several European countries such as Italy, Denmark and the United Kingdom. Together, these countries take about a third of U. S. farm product exports.

Repayment of some of the debts incurred is now coming due, and most of these countries must take actions to strengthen their external financial positions. Many countries have tightened their belts and are buying less.

The situation is very different from four years ago, when the non-petroleum countries had large reserves of foreign exchange and the developed nations had little or no foreign debt."

A report from the international monetary fund reveals how bad the exchange situation is. Particularly for the developing countries.

#### SUMMARY OF PAYMENT BALANCES ON CURRENT ACCOUNT (\$ BIL. U. S.)

	1973	1974	1975	Projected 1976
MAJOR OIL EXPORTERS	\$ 6	\$67	\$35	\$40
INDUSTRIAL COUNTRIES	12	-9	18	3
NON-OIL PRIMARY PRODUCING COUNTRIES				
MORE DEVELOPED	1	-14	-14	-10
LESS DEVELOPED	-10	-29	-37	-32

Source: IMF, Annual Report Draft, July 1976. Taken from USDA, ERS, World Agricultural Situation, Oct. 1976.

The world's poor countries are running huge deficits. Most of them are our customers. The oil exporters, naturally, have large amounts of money.

The above adds up to a persistent anomaly. It is the anomaly of depressed markets alongside urgent need -- even in some places, desperate need. It is in this sense that the world's economic problem and the financial imbalance problem interconnect with the world food problem.

Since this is not a complete review, the debates about global economic policy will not be developed. Always involved are both policy within individual countries, and policy for economic relationships among countries. The latter, includes development policy, trade policy, the international monetary mechanism, and food aid policy.

Two comments relative to trade and to aid are worth making.

#### The "North-South Dialogue"

With respect to trade, a dispute is now underway between negotiations looking toward freer trade, and proposals for highly controlled commodity trade.

Trade negotiations are now going on in Geneva, Switzerland. The U. S. objective is "to expand trade . . . to get rid of trade barriers." In contrast, the poorer nations are working toward an elaborate commodity trading arrangement complete with buffer stocks. They suggest international agreements for 14 commodities that they export -- which do not include the food and feed grains but does include oils and oilseeds. The countries say they want to insure "fairness" for their exports.

This so-called North-South dialogue promises to be contentious and prolonged. There is some doubt, though, that either side is prepared to live up to its own professed objectives.

### Aid and Commercial Exports

Most of the food and other farm products moving abroad from the U.S. goes in commercial trade. It is sold for dollars, either cash-on-the-barrel-head or dollar credit.

Aid exports are small. Of total exports near \$23 billion, Food for Peace or food aid accounts for about \$1.4 billion. Of the \$1.4 billion some \$800 million are long term low-interest credit or dollar sales. Grants and donations are over a half billion dollars or a little more than 2 percent of total farm exports. U. S. food aid has been reduced materially since the days when the CCC held large surplus stocks.

### SUMMARY

The world food and farm trade situation are so complicated and so quickly changing that it is almost impossible to summarize them with confidence.

Today, the USSR, Pakistan, India, and Bangladesh are not knocking on our doors to get all the grain they can. Their needs are not urgent. This is a negative factor to U.S. wheat and rice producers.

Over time, economic developments and political relationships have the greater bearing. Chances are that poor countries will enlist all the help they can get in feeding their big populations. Those that export raw commodities such as coffee, cocoa, tea, jute, and metals will try to set up commodity trading arrangements to underpin prices. Food exporting nations will be sensitive to international political pressures, humanitarian sympathy, and, if their crops are big, the need to find bigger markets.

When all is said and done, the supply and price levels in exporting countries may have most to do with terms of both commercial trade and food aid. If crops such as wheat continue to have market problems, commercial credit and food aid will likely be extended generously. If crops should be short and the price high, the opposite policy will be followed.